SCHOOL & INSTITUTIONAL
TRUST FUNDS OFFICE

200 E SOUTH TEMPLE, SUITE 100
SALT LAKE CITY, UT 84111

801-364-0821
SITFO.UTAH.GOV

Investment Policy Statement

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Introduction

Authority and Beneficiaries

The Utah State Legislature created the School & Institutional Trust Funds Office (SITFO) as an independent agency within state government. SITFO has a five-person board of trustees with the state treasurer acting as ex officio chairperson. Trustees are experienced investment professionals nominated via a robust and independent process outlined in statute.

The purpose of SITFO is to invest School and Institutional Trust Lands Administration (SITLA) revenues in a manner that supports the distribution policy in perpetuity while providing for intergenerational equity between current and future beneficiaries. Trusts are managed for the sole benefit of their respective beneficiaries.

Trusts are managed with similar asset allocations because return and risk objectives are the same. There is significant benefit of scale for the smaller trusts invested alongside the permanent School Trust Fund, which accounts for 95% of combined assets. In addition to the School Trust Fund, there are 10 smaller institutional trust funds:

- Miners Hospital
- Institute for the Blind
- Reservoirs Fund
- Normal School
- University of Utah
- School of Mines
- Utah State University
- Utah State Hospital
- Deaf School Fund
- State Industrial School

The source of investable financial assets is the same across all trusts, however, the size of contributions differs. The relative importance of contributions is likely to decrease over time because:

- SITFO expects the trusts to grow through compounding of investments
- SITFO takes a conservative approach in evaluating the land assets as a diminishing revenue resource

This investment policy is subject to all applicable state and national laws. Specific laws of the State of Utah for reference include:

- Utah Code Title 53D
- State of Utah Constitution Article VI, Section 29 and Article X, Section 5 and 7
- Utah Code 63G-6a-107 and Utah Code 63E-1-102

Purpose and Fiduciary Duty

The purpose of this investment policy statement (IPS) is to assist SITFO and its board in effectively supervising, monitoring, and evaluating the investment of the assets. It is also a mechanism for continuity of approach and institutional knowledge. SITFO evaluates the IPS on an annual basis. This process is intended to reground SITFO in policy, revise language and thinking for the sake of clarity, update investment processes and structures, and formalize addendums approved by the board.

SITFO and its board have a fiduciary responsibility to make investment decisions and take actions in the best interest of the beneficiaries. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflicts of interest. In seeking to attain the investment objectives set forth in the policy, SITFO's board, investment consultant, and investment managers shall exercise prudent and appropriate care. All investment actions and decisions must be based solely on the interest of the beneficiaries. For additional guidance, SITFO and the board have formulated their investment beliefs in an accompanying document called "Statement of Investment Beliefs." Investment beliefs are principles, not policy, and are thus not included herein.

Duties and Responsibilities

Duties and Responsibilities of the Board

SITFO's board of trustees is vested with the authority for setting investment policy. The board determines its own meeting schedule but meets at least six times annually to:

- Review the investment performance and market value of each trust
- Review investment manager hiring and termination decisions
- Review the distribution policy as needed
- Establish or adjust the target asset allocation as necessary
- Review the asset mix of the trusts relative to the target allocation
- Review auditor's annual report and consult with the auditor as needed
- Review and approve SITFO hiring or termination of consultants and custodian
- Review and approve changes to SITFO's office budget, staffing, and operations
- Review general compliance with the IPS

- Review and approve modification of the IPS

Duties and Responsibilities of SITFO

SITFO staff is charged with the day-to-day responsibility to:

- Manage and monitor the investments of each trust, including executing strategy and manager selection decisions to implement the asset allocation set by the board
- Direct the implementation of rebalancing transactions
- Prepare an agenda for board meetings and submit the agenda to the chair for amendments
- Coordinate board meetings, manager presentations and discussions, and consultant activities, presentations, and discussions
- Identify issues to bring before the board and prepare recommendations on those matters
- Ensure that fund administration complies with this document and applicable state regulations

Duties and Responsibilities of the Consultants

Consultants may be retained and will be responsible to:

- Advise on investment policy, implementation, and control issues as requested by the board, after consulting with the director of SITFO
- Prepare comprehensive due diligence monitoring and investment performance reports with respect to trust investments
- Recommend changes to the portfolio based on risks and opportunities
- Assist in the implementation of investment decisions and support ongoing investment operations
- Provide appropriate education on investment and governance topics as necessary
- Attend board meetings as needed

Duties and Responsibilities of the Investment Managers

The duties and responsibilities of the investment managers include the following:

- Manage the underlying assets consistent with their stated approach and this policy
- Report investment results and meet with the board, staff, and/or investment consultant as required
- Promptly inform SITFO and the consultant of all material matters, including changes pertaining to the investment of trust assets
- Utilize the same care, skill, prudence, and due diligence under the circumstances that

experienced investment professionals acting in a like capacity and fully familiar with such matters would use:

- in like activities for like trusts with like aims;
- in accordance and compliance with all applicable laws, rules, and regulations from local, state, federal, and international political entities;
- as it pertains to fiduciary duties and responsibilities

Duties and Responsibilities of the Custodian (Custody Policy)

The custodian's primary function is to hold in custody the assets of the portfolio, including individual securities and shares, or other interests invested in commingled vehicles. In addition, the custodian:

- Facilitates cash flows and transactions
- Reconciles account positions and activity
- Accounts for all portfolio transactions, including the collection and accrual of interest and dividends
- Prepares periodic (e.g., monthly) account statements
- Provides ongoing sub-accounting for various trust ownership interests
- Securities lending

SITFO may lend securities held in the trusts through a lending agent and require collateral in the form of cash, marketable securities, or the like. SITFO may execute an agreement with the custodian (or other lending agent) to lend domestic and non-U.S. equity and debt instruments of the fund directly to borrowers. The lending agent will provide indemnification, reporting, and a specific risk/return profile as instructed by SITFO staff.

Statement of Objectives

SITFO does not target a specific risk level. However, volatility is expected to be less than or approximately equal to a portfolio comprised of broad equity and bond indices that reflect the target asset allocation. For example, a 70% MSCI ACWI and 30% Bloomberg Barclays US Aggregate allocation. In general, SITFO's risk tolerance attempts to minimize volatility such that it is no greater than necessary to achieve the long-term investment objective.

SITFO's long-term investment objective is CPI + 5%. The primary return objective is to maintain purchasing power while sustaining the current distribution amount which is a maximum of 4%. A portfolio growth rate that exceeds the maximum distribution amount of 4% plus inflation is a secondary objective and is embedded in the CPI + 5% target.

Distribution Policy

The School Trust Fund will make an annual distribution based on the formula outlined in statute Section 53A-16-101(2)(b):

> *(2)(b) The Trust Distribution Account consists of the average of:*
>
> *(I) 4% of the average market value of the permanent State School Fund based on an annual review each July of the past 12 consecutive quarters; and*
>
> *(II) The prior year's distribution from the Trust Distribution Account as described in Section 53A-16-101.5, increased by prior year changes in the percentage of student enrollment growth and in the consumer price index.*
>
> *(3) Notwithstanding Subsection (2)(b), the distribution may not exceed 4% of the average market value of the permanent State School Fund over the past 12 consecutive quarters.*
>
> *The other trusts distribute as outlined in statute Section 53C-3-102(7):*
>
> *(7) Distributions to the respective institutions from the associated permanent funds created from lands granted in Sections 8 and 12 of the Utah Enabling Act shall consist of 4% of the average market value of each institutional permanent fund over the past 12 consecutive quarters.*

Asset Allocation

Asset allocation will likely be the key driver of returns over the long term. The target asset allocation should provide an expected total return greater than or equal to the investment objective of the trusts, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investing in a diversified manner, to sufficiently provide for future purchasing power and the possibility of growth, is likely to include investments that are volatile or illiquid. Other investments are used to reduce volatility, provide liquidity, or protect the portfolio in inflationary or deflationary environments. In determining the appropriate asset allocation, the inclusion or exclusion of investments is based on the impact to the total portfolio, rather than judging investments on a stand-alone basis.

Targets & Constraints

The current target allocation and the minimum and maximum ranges as established by the board are:

	Min	Target	Max
Growth	25.0	37.0	50.0
US Equity	9.0	15.0	21.0
US Large Cap	4.5	7.5	10.5
US Small Cap	4.5	7.5	10.5
International Equity	9.0	15.0	21.0
International Developed Equity	4.5	7.5	10.5
Emerging Markets Equity	4.5	7.5	10.5
Private Equity	4.0	7.0	10.0
Real Assets	15.0	20.0	25.0
TIPS	0.0	3.0	6.0
Public Real Assets (Infra/MLP/REIT)	1.0	4.0	7.0
Private Real Estate	6.0	9.0	12.0
Private Natural Resources	1.0	4.0	7.0
Income	20.0	31.0	40.0
Credit	4.0	7.0	10.0
Securitized	5.0	8.0	11.0
Insurance Linked Securities	0.0	4.0	6.0
EMD	2.0	5.0	8.0
Private Debt	4.0	7.0	10.0
Defensive	10.0	12.0	20.0
Long US Treasury	3.0	5.0	15.0
CTA	3.0	7.0	15.0

Time Horizon

SITFO's time horizon is theoretically infinite and is described in its statement of beliefs as "being measurable in years or even decades." This long-term thinking heavily influences decision making but SITFO understands that geopolitical, global macroeconomic, and operational realities may require it to consider shorter term implications when implementing and managing investments. The asset allocation is formulated, implemented, and managed to achieve the long-term investment objective of CPI + 5% annualized.

Rebalancing of Strategic Allocation

The portfolio is governed by targets and constraints specified in the asset allocation. Target and constraint ranges are a function of an allocation's volatility and size. Allocations are monitored by SITFO and the consultant and reported to the board monthly. The board relies on SITFO to initiate rebalancing whenever minimum or maximum constraints are breached.

SITFO employs cash flows to maintain targets and ranges, and to minimize the need to effect rebalance-based investment transactions. Illiquid investments may affect the portfolio's ability to rebalance efficiently with minimal costs and are evaluated in a rebalancing context during the selection process.

At any point in time, the actual asset mix may diverge from target allocations because of market fluctuations, cash contributions, capital calls and distributions, etc. The role of the constraints is to allow for these short-term fluctuations and define limits for tactical modifications. The board reviews asset allocations relative to policy targets at least quarterly. Explicit decisions to move outside the target ranges require board approval.

Diversification & Risk Management

SITFO and the board recognize the difficulty of achieving the investment objective in uncertain and complex investment markets. The asset allocation's ability to withstand volatility and illiquidity is considered and managed through the lens of objective efficient portfolio analysis.

Volatility

Consistent with the desire for adequate diversification, the asset allocation is based on the expectation that volatility is approximately equal to a portfolio comprised of broad equity and bond indices that reflect the target asset allocation. For example, a 70% MSCI ACWI and 30% Bloomberg Barclays US Aggregate allocation.

Liquidity

Given the long-term horizon and the size and predictability of annual distributions, the portfolio can tolerate illiquidity to support higher returns and to further diversification efforts. Since liquidity is necessary to meet the distribution policy payout and to manage internal portfolio requirements such as capital calls, investment opportunities, and expenses, SITFO maintains a balance between investment goals and liquidity needs. In some instances, the most appropriate investment decision may be one that comes with liquidity constraints. SITFO and the board periodically review the liquidity allocation's ability to meet short- and long-term objectives and impose the following limits at the time of investment:

- 15% of the portfolio is available at least weekly
- A maximum of 35% of the portfolio (including funded and unfunded commitments) has liquidity timeframes longer than annual redemptions

Position Sizing

SITFO pursues diversification with the intent to minimize the risk of large investment losses at the total portfolio level. Consequently, the total portfolio is constructed and maintained to provide prudent diversification with respect to the concentration of holdings in individual strategies, managers, sectors, or securities. Capital is deployed in tranches whenever possible to avoid market-timing risks, specifically:

- No investment manager shall exceed 5% of the portfolio at the time of initial purchase, except in circumstances of exchanging managers or vehicles of like strategy and/or style
- No active investment manager shall exceed 10% of the portfolio at market value

Performance Monitoring

The consultant, custodian, or other independent party provides to the board comprehensive quarterly performance reports. SITFO expects to achieve its investment objective over the long term, not each year. The board recognizes over various periods the portfolio may over or under perform relative to indices or peer groups.

Benchmarking

Performance monitoring deploys three benchmarks. First, the long-term investment objective benchmark of annualized net-of-fees total return of CPI + 5%. Second, the policy weighted benchmark or asset-weighted benchmark measures performance or value added from decisions that target specific asset classes or regions. Third, active allocation benchmark measures risk and performance of taking on active management. It uses manager-specific benchmarks weighted by existing manager weights. The change in manager weights over time is retained and intended to reflect the value added from active management.

Qualitative Manager Evaluation

Each investment manager will be reviewed by SITFO on an ongoing basis. SITFO reports the results of its reviews to the board and provides recommendations as warranted. Evaluation criteria includes, but is not limited to:

- Stability of the organization
- Retention of key personnel
- No regulatory actions against the firm, its principals, or employees
- Adherence to investment philosophy
- Purpose in the context of the whole portfolio
- The length of time the firm has been in existence
- Track record
- Assets under management

Quantitative Manager Evaluation

SITFO measures active managers in public markets against the appropriate market index and a peer universe of similar strategies. SITFO and the board expect managers to outperform respective benchmarks and rank above average in peer groups over a full market cycle. SITFO does not expect to attain the long-term investment objective each year. However, managers that fail to meet criteria over a five-year period trigger an analysis to determine suitability and probability of meeting the objectives.

SITFO expects passive managers in public markets to approximate the quarterly total return of its respective benchmarks, net of fees.

Private partnerships typically range from seven to 10 years in life, during which time the portfolio may not be able to sell the investment without recognizing a substantial loss. Additionally, the partnership may not produce meaningful returns for three to five years (depending on the strategy). New investments (three to five years) and investment fees may create a drag on fund performance (known as the J-curve) until these investments begin to mature.

Private, illiquid manager performance is measured utilizing investment multiples, internal rate of return (IRR) from the inception of the partnership compared to an appropriate peer group, and/or a public market equivalent benchmark. When appropriate, based on size and maturity of the private allocations, a time-weighted rate of return is used to measure private asset performance.